

**STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE
45 Fremont Street, 24th Floor
San Francisco, California 94105**

FINAL STATEMENT OF REASONS

**RH-04041191
October 27, 2005**

**MINIMUM RESERVE STANDARDS FOR VALUATION OF
DISABILITY INSURANCE CONTRACTS**

UPDATE OF INITIAL STATEMENT OF REASONS AND INFORMATIVE DIGEST

There is no need to update any of the information contained in the Initial Statement of Reasons, or in the Informative Digest, for this matter.

UPDATE OF MATERIAL RELIED UPON

No material other than the transcript of the public hearing and this Final Statement of Reasons has been added to the rulemaking file since the time the rulemaking record was opened, and no additional material has been relied upon.

MANDATE UPON LOCAL AGENCIES AND SCHOOL DISTRICTS

The Department of Insurance has determined that the proposed regulations will not impose a mandate upon local agencies or school districts.

ALTERNATIVES

The Commissioner has determined that there are no alternatives that would be more effective, or as effective and less burdensome to affected persons, than the proposed regulations. In support of this determination is the fact that no alternatives were suggested during the public comment period, despite the express invitation that was extended in the Notice of Proposed Action to comment on alternatives to the regulations.

SUMMARY OF AND RESPONSE TO PUBLIC COMMENTS

The Department of Insurance has received no comments with regard to this rulemaking, either during or after the public comment period.

///

INCORPORATION BY REFERENCE

As specified in the Notice, the following material has been incorporated by reference into the proposed regulations:

- The 1985 Commissioners Individual Disability Table A (85CIDA);
- Transactions of the Society of Actuaries (TSA) XXXVII, pp.457-463, exhibits 3a, 3b, 3c, 4 and 5;
- The 1985 Commissioners Individual Disability Table C (85CIDC); and
- The 1994 Group Annuity Mortality Static Table.

All of this material has been included in the rulemaking file, and has been available upon request directly from the Department of Insurance since the time the rulemaking record was opened. In addition, these documents are contained in volumes of the Transactions of the Society of Actuaries, a treatise which is commonly known in the insurance industry and which is reasonably available to the insurance companies that are subject to the regulations.

It would be cumbersome, unduly expensive, or other wise impractical to publish the documents incorporated by reference in the California Code of Regulations because these documents are lengthy tables and extensive explanatory excerpts from volumes of the Transactions of the Society of Actuaries, a reference treatise that actuaries are required to use by existing regulations in preparing financial documents for insurance companies. Indeed, the existing regulations which the proposed amendments would modify cite to excerpts from these same treatises without publishing the excerpts in full in the text of the regulations because publication of the full text would be cumbersome and impractical. In addition, because existing regulations already require that actuaries use these treatises in preparation of financial documents, these treatises are already readily available to the insurance companies that would be subject to the amendments proposed in this rulemaking, making publication of the excerpts in the California Code of Regulations impractical and unnecessary.

To ensure compliance with the requirements of the Office of Administrative Law, the proposed regulations have been revised to add more complete citation information for the documents to be incorporated by reference, and to add the words “incorporated by reference herein” after each citation.

IDENTIFICATION OF STUDIES

There are no technical, theoretical, and empirical studies, or similar documents relied upon in proposing the adoption of the regulations. The Commissioner has relied upon the NAIC’s Health Insurance Reserves Model Regulation (NAIC Model 10) in proposing adoption of the regulations, and a copy of this document is included in the rulemaking file.

REASONABLE ALTERNATIVES TO THE REGULATIONS; IMPACT ON SMALL BUSINESS

The Commissioner has identified no reasonable alternatives to the presently proposed regulations, nor have any such alternatives otherwise been identified and brought to the attention of the Department of Insurance, that would carry out the purpose for which the regulations are proposed or which would lessen any impact on small business. Indeed, the proposed regulations are not anticipated to affect small businesses. The proposed regulations affect insurance companies, which Government Code section 11342.610(b)(2) states are not small businesses. Although performance standards were considered as an alternative, they were rejected as ineffective in addressing the problem of updating minimum reserve standards and promoting uniform regulation of reserve standards among various states and the NAIC.

#357017v1